STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 6596

Tariff filing of Citizens Communications Company, d/b/a Citizens Energy Services, requesting a rate increase in the amount of 40.02%, to take effect December 15, 2001

PREFILED TESTIMONY OF
SEAN A. FOLEY
ON BEHALF OF THE
VERMONT DEPARTMENT OF PUBLIC SERVICE

March 7th, 2002

Summary: The purpose of Mr. Foley's testimony is to address certain issues with Citizens Communication Company's Vermont Electric Division's (the "Company") proposed power production cost estimates.

Prefiled Testimony
of
Sean A. Foley

Q. Please state your name and occupation.

A. My name is Sean A. Foley, and I am a Power Planner for the Department of Public Service (the "Department".)

Q. Please summarize your relevant educational experience.

A. I received a Bachelor of Arts in Physics from Saint Michael's College, Winooski, Vermont in May of 1982. I was enrolled in the Applied Solar Energy, Masters of Science Program that I attended from 1983 to 1985 at Trinity University in San Antonio, Texas. In June 1987 I received a Master of Science, Applied Science and Energy Science from the Graduate School of Arts and Science at New York University, New York, New York.

Q. Please describe your work experience.

A. As Senior Associate at Barakat & Chamberlin, Inc. from November 1992 to August 1994, I assisted its utility clients in the areas of integrated resource planning, including demand-side planning and evaluation and supply-side resource planning, load forecasting, regulatory strategies, environmental assessments, and competitive market assessment.

Prior to that I was Director of Resource Planning at Burlington Electric Department from November 1988 to November 1992 where I supervised the work of staff members in the Resource Planning area in the fields of forecasting, rate design, load research, demand-side planning/evaluation, and supply-side planning. I also negotiated contracts for power sales and purchases.

Q. Have you testified previously before the before the Vermont Public Service Board?

A. Yes, in several dockets for both the Burlington Electric Department and as a witness for the Department. Most recently I testified in Docket 6495.

Q. What is the purpose of your testimony?

A. My testimony proposes several adjustments to the Company's projected rate year power production costs.

Q. Have you used a different Adjusted Test Year than that proposed by the Company?

A. Yes, I have included known and measurable changes that will be in effect beginning in July of 2002, as these reflect the costs that the utility will likely incur during the year for which the rates will be in effect. This is a change from the Adjusted Test Year (ATY) proposed by the Company, which was calendar year 2001.

Q. Can you summarize the adjustments that you are proposing?

A. Changes have occurred in the following items of the power costs:

<u>Independent System Operator New England Energy Clearing Price</u> ("ECP") This was updated to reflect the recent forward market prices. An adjustment was made using the February 12, 2002, Natsource broker sheet information.

<u>Hydro-Quebec Assured Secondary Energy</u> ("ASE") As of Dec 1, 2001 the price charged by Hydro-Quebec for ASE deliveries is the ECP + $1.75/MWh. That $1.75 must be added to each MWh of ASE deliveries assumed in the ATY.

<u>Energy Uplift Charges</u> This was updated to reflect the change ISO implemented in its bidding process that reduced uplift charges.

VEPPI Contracts The generation provided from the VEPPI contracts were changed to be based on a five historical average, and the prices of the contracts were change to be based on contract rates for the July 2002 – June 2003 period.

Hydro Quebec Vermont Joint Owners Contract The energy amounts from this contract were changed to match a Company-proposed schedule of delivered energy to match the Test Year loads. An additional adjustment was made to account for a change in the power year beginning Nov, 2002, namely that the monthly VJO deliveries will be based on a 65% annual capacity factor ("CF") as opposed to the 75% CF assumed in the Company's ATY of the original filing.

The Company's hydro resources The generation available from the Company's owned hydro generation was adjusted to reflect a five year historic average generation.

The Company's net purchases at market Market purchases were changed to reflect the change in the ECP and a change in the amount of energy purchased due to changes in production from other generating resources for the period.

ICAP The prices for bilateral ICAP purchases were adjusted to reflect more current ICAP market prices.

Q. Describe the adjustment made to the market prices.

A. The Company used the actual January through June 2001 ECP and Natsource forward prices, as of June 19, 2001, for July - December 2001 in their adjustment to the Test Year power costs. I changed these prices to reflect the Natsource forward prices as of Feb. 12, 2002, as shown on Exhibit DPS-SAF-1.

The average on-peak price the Company used was approximately $52/MWh, and the average off-peak price was approximately $38/MWh. The average on-peak price that I used was approximately $36/MWh and the average off-peak price was approximately $24/MWh. This change in prices is incorporated into my adjustment for market purchases, below.

Q. Is the use of the forward price an appropriate method to forecast the market price?

A. Yes the Public Service Board found in a prior docket that forward prices are "credible proxies"[1] for market prices.

Q. Describe the change made to ASE price.

A. As mentioned above, the HQ-ASE is now priced at ISO-ECP plus $1.75/MWh. The Company estimated that they would purchase over 13,000 MWh on-peak and over 11,000 MWh off-peak. The Company's original estimate of the total cost of this purchase was $1,129,780. Using the Natsource forward prices plus $1.75 the total cost of the ASE purchase would be $811,341. This is a reduction of $318,439.

Q. Describe the effect of the Energy Uplift Charges expenses now being captured by ISO through the energy clearing price.

A. The Company had an Energy Uplift Charge as a line item in their power costs details that they provided in discovery. This line item flowed through to the Settlement Energy costs (costs associated with energy purchased or sold by Citizens through the ISO settlement process). Energy Uplift was a separate item in the Energy Settlement bill from ISO through June 2001. Beginning July 1, 2001, the ISO implemented a change in its bidding process that was intended to reduce uplift charges. At the same time they removed the uplift charges from the Energy Settlement bill and recovered these costs in a

[1] PSB Docket No.6495 Order entered 11/9/2001 at page 12.

new charge called NCPC. The NCPC charge is now accounted for in the "Miscellaneous" section of the Company's Production Detail Report. The filed amount of the Energy Uplift Charge line item was $233,877. The NCPC charge for the six month period from July 2001 through December 2001 was $7,114; annualized it would be $14,227. This is a reduction of $219,649.

Q. Describe the change to the VEPPI production/cost estimates.

A. The Company based a portion of the VEPPI production on actual generation values from 2001. The original estimate of the total cost for these contracts was $1,959,737. To estimate the production and cost for these contracts beginning in July of 2002, I changed the generation production values to a five-year historic average and also change the prices to reflect the contract rates for the July 2002 – June 2003 period. This was an increase the amount of energy taken under these contracts and an increase in the price paid, resulted in a total cost of $2,194,020 for the VEPPI contracts, an increase $234,283.

Q. Describe the change made to the HQ contract.

A. In estimating its power costs, the Company used actual energy deliveries for the months January 2001 through June 2001, the scheduled amount of energy from the power year 2001 for the energy to be delivered in July 2001 through October 2001, and an estimate of the scheduled monthly amounts for power year 2002 at 75% CF for the year for the energy to be delivered in November and December of 2001.

To estimate the amount delivered during the ATY, beginning July of 2002, I used a schedule of daily load profiles provided by the Company. I used this to develop the annual HQ schedule, using the test year loads. The price of the contract was also increased at the beginning of the power year, November 2002, to reflect an increase in energy cost. This reduced the annual energy from the HQ contract by 426 MWh, but increased the total cost by $82,469

I made an additional adjustment to account for a change in the power year beginning Nov 2002, the monthly HQ contract deliveries will be based on a 65% annual CF as opposed to the 75% CF assumed in the Company's original filing. The reduction in deliveries was assumed to be made only during off-peak periods, and was made up for with market purchases at the ECP. This is a reduction of 17,906 MWh and a cost reduction of $41,703. See Exhibit DPS-SAF-2.

Q. Describe the changes to the market purchases.

A. The Company's net purchases at market were changed to reflect the change in the ECP (described previously) and in MWh due to changes in other generating resource production for the period. The market purchases were reduced by over 2,600 MWh. This decrease was mostly due to the increase of the Company's hydro generation of 1,835 MWh. This, combined with the decreases in the ECP, reduced the cost of market purchases by $1,173,794. The increase in market purchases and the associated costs, due to the change in the HQ capacity factor, are not included in this value as they are account for in a separate calculation.

Q. Please describe the adjustments made to the Company's ICAP sales and purchases.

A. The prices for bilateral ICAP purchases were adjusted to reflect more current ICAP market prices. The Company had two bilateral ICAP purchases. The first was for 10 MW of ICAP for four months, starting September 2001 at a price of $3.50/kW/month. The second was for 10 MW for twelve months, starting October 2001, at a price of $2.05/kW/month. The pricing for the ICAP bilateral purchases and market resale were adjusted to match the Natsource 2/12/2002 broker sheet. This reduced the cost of the ICAP purchases and revenues by $243,834.

Q. Are there any additional adjustments you are proposing?

A. Yes, the company has had an increase in miscellaneous power costs of $13,354, which should be included in production costs. This increase does not include miscellaneous cost associated with the NCPC charges.

Q. What is the total amount of the adjustment you are recommending?

I am recommending a total power cost reduction of $1,659,214. The breakdown of this amount is summarized in the table below.

Hydro Quebec	MWh	Costs
C-1 Firm	(270)	$47,695
C-2 Firm	(62)	$19,889
C-3 Firm	1	$562
C-4 Firm	(80)	$21,687
Sch B	(15)	$736
Total	(426)	$90,570
Hydro Quebec ASE		($318,439)
VEPPI	1,201	$234,282
Market Energy	(2,610)	($1,173,794)
ICAP		($243,834)
HQ Cap Factor to 65%		
HQ	(17,906)	($480,397)
ECP	17,906	$438,694
Uplift/NCPC		($219,649)
Misc		$13,354
CUC Hydro	1,835	
Total Change	0	($1,659,214)

Q. Does this conclude your testimony?

A. Yes.

Natsource, Inc.
140 Broadway, 30th Floor
New York, New York 10005
(212) 232-5380 or (888) 562-8797

NATSOURCE
Institutional Energy Brokers

Eastern Power Markets Price
Feb 12 2002

NEPOOL PTF Seller's Choice

Month(s)	Demand Period	Bid (MWh)	Ask ($/MWh)
Dailies		$ 30.50	$ 31.75
Bal Month	5x16	$ 29.75	$ 30.50
March-April	5x16	$ 28.75	$ 29.25
March Icap	7x24	$ 0.90	$ 1.05
May	5x16	$ 32.50	$ 33.50
May	5x8,2x24	$ 23.25	$ 24.25
June	5x16	$ 38.25	$ 38.75
June	5x8,2x24	$ 25.00	$ 26.00
July-Aug	5x16	$ 50.50	$ 51.00
July-Aug	5x8,2x24	$ 27.50	$ 28.00
Sep	5x16	$ 32.25	$ 32.75
Q4	5x16	$ 31.50	$ 32.00
Cal 03	5x16	$ 33.50	$ 34.00
Cal 03	5x8,2x24	$ 24.25	$ 24.75
Cal 03 Icap	7x24	$ 0.75	$ 0.95
Cal 04-06	7x24	$ 29.00	$ 29.50

Notation Guide:

1. All prices are 100% firm liquidated damages;
2. ICAP= Installed capacity is priced as a function of Dollars per Kilowatt month ($/KW-Month). The buyer bears the regulatory risk.
3. Daily prices are a function of the daily low trade and the daily high trade.
4. The Transaction is for delivery or receipt of energy at the NEPOOL Pool Transmission Facilities the (NEPOOL PTF), provided that (i) at and after date a system of locational marginal pricing goes into effect within the NEPOOL control area, the Delivery Point shall be any point(s) within the NEPOOL PTF as selected by Seller on a daily prescheduled basis, and (ii) at after the date that a multi settlement system of pricing (including a day ahead and hour ahead market) goes into effect within the NEPOOL control area, the Seller will schedule in the day ahead market.
5. The quotes are for delivery of physical power. The information in this price report is believed to be reliable, however, Natsource Institutional Energy Brokers does not warrant its completeness or accuracy.

Adjustment for change to 65% Cap Factor for HQ, Starting Nov 2002

Sum of HQ MWhs @ 75% for months Nov 2002 - Jun 2003		134,294
MWhs at 65% Cap Factor		116,388
MWhs Difference		17,906
		Value of Difference at Price
HQ Energy Price	$26.83	$480,397
Natsource Off-Peak Price	$24.50	$438,694
Difference	$2.33	
Power Cost Reduction		$41,703

All reduction in HQ production is assumed to be in off-peak hours
The Natsource off-peak price is the same for the given period